INSURANCE LEGISLATION

BRITISH, AMERICAN and CANADIAN

Address by Mr. T. B. Macaulay, F. I. A., before National Association of Life Underwriters, at Toronto, August 22nd, 1907.

MR. PRESIDENT AND GENTLEMEN:

When I received the invitation to address you, I felt that it was an honor and a privilege which I could not refuse. As the whole question of insurance legislation will come up for settlement at the next session of the Dominion Parliament, and as our Royal Commission has made a number of recommendations in connection therewith, my first impulse was to discuss our Canadian insurance act by itself; but on second thought it seemed better to consider the problem in its broader aspects. I know the subject is now a hackneyed one with most of you, but it is of such overwhelming importance to us in Canada, that I trust you will bear with me while I speak briefly on life assurance legislation—British, American and Canadian.

It is proper that we should first consider the nature of the business to which such legislation is to apply. What is life assurance? It is simply philanthropy reduced to a business basis. Its primary object is the protection of widows and orphans. When death removes the bread winner, the life policy keeps the home for the family, provides the daily bread and enables the children to be educated. The development of endowment assurance had added the further feature of protection to the assured himself against the needs of his own old age. These aids are given, moreover, not in the form of charity, which demoralizes the recipients, but in such a way as to even increase their self-respect. The nobility and beneficence of the business in which we are engaged needs to be emphasized at the present time when the tendency is to magnify any flaws in the companies or their methods, and to overlook the essential grandeur of their work. The combined income of our orphan asylums and similar charitable institutions is a bagatelle compared with that of our life companies. Our schools and colleges provide education, but it is life assurance that sustains the orphans while their education is being obtained. Life assurance is in fact the most beneficient development of modern civilization. In financial usefulness to bereaved humanity there is no other business that can compare with that of the life assurance company, and no other occupation that can compare with

that of the much-maligned life assurance agent. I do not claim that life companies are charitable institutions. They are business organizations, conducted by business men on business principles and for business ends; but that fact increases rather than diminishes the importance and usefulness of their operations. What would be the result if the whole system of life assurance were some night to be swept out of existence by a magician's wand. A greater financial calamity to the world could hardly be imagined. The young husbands and fathers of the future would have the sorrowful thought at all times present to their minds that if premature death should overtake them, their loved ones would be left in destitution. What would the accumulation of twenty, thirty or even fifty dollars per annum for two, five or ten years amount to as a provision for the future, in comparison with the sums which these annual payments would have purchased in the form of life assurance? Nothing has yet been devised that can take the place of the life policy. I dwell thus on the nature of the business because these considerations should influence and mould all legislation in regard to it. To restrict the operations of our life companies would be as objectionable as to restrict the operations of charity or philanthropy, and the aim of parliament on the contrary should be to encourage and foster this great system which is such a blessing to humanity.

There are, however, persons who profess to admire life assurance in the abstract, but believe in restricting and hampering the companies. What are the companies but aggregations of policyholders? Insurance legislation affects every policyholder in the land. Every measure which reduces the earnings of the companies, or lessens their power to make legitimate profits, reduces the earnings and profits of each individual policyholder and makes his life assurance cost more in dollars and cents. And even policy-holders are not the only ones interested. The entire public is deeply concerned. Restrictions that lessen the amount of assurance carried in a country merely increase the number of widows who will in years to come be left without protection, and the number of orphans who will have to go through life with defective educations, and otherwise handicapped. The agitation of the last year or two in the United States, and the subsequent legislation have already resulted in a reduction of probably over $500,000,000 in the volume of assurance carried in American companies, and that amount will increase from year to year, for with the fetters which the new laws have put upon the activities of the companies, it will be long before the yearly new business will get back to its old level. Who can measure the amount of suffering which the distribution of $500,000,000 to widows and orphans in years to come would avert? The loss is a national catastrophe, and should be a warning as to the evils which may result from unwise legislation.

But life assurance is not merely noteworthy for its beneficence. It has another equally marked characteristic, for it is also the most intricate and technical of all financial systems. A life policy differs from almost every other kind of contract in that the purchase price is paid years in advance of the payment which is to be made in exchange therefor, even the date of such future payment being unknown and dependent on the length of life. The necessary accumulation of funds, the valuation of the distant and

uncertain liabilities, the calculation of premiums, the sharing in profits, and the hundred and one other details, combine to make this the most difficult of all forms of business with which to deal satisfactorily by legislation. In view of this difficulty, our British friends contend that the less legislation there is, the better, and that little or nothing is needed except the requirement of complete publicity. The catchword there is "Freedom with Publicity," and certainly the results in Great Britain have been gratifying. Annual returns are called for, which, however, in our eyes are in some respects lacking in detail. For example, no information is required as to the separate blocks of securities owned, merely the summarized totals being given. In this respect the British returns are certainly defective. On the other hand, once at least in five years each British company must give details of its valuation basis, its method of dividing profits, and illustrations of the bonuses declared by it. This important information has not until lately been required on this side of the Atlantic, and in the Old Land it has tended to provoke a rivalry between companies, in regard to strengthening reserves and increasing bonuses, which has been highly desirable. The power of public opinion when supplied with the necessary information on which to base a judgment, has been found to be there an effectual cure for most abuses, even with a minimum of legislative restriction. British life assurance, since the passage of the Act of 1870, has on the whole been in a very satisfactory condition, and the individual companies have, almost without exception, steadily improved their positions.

As the keynote of insurance legislation in Great Britain is "Freedom with Publicity," so that of the United States may almost be said to be "Restriction with Publicity." It will be noted that both ideals demand publicity, and on this point there can hardly be two opinions. The recently adopted American forms carry publicity to an extreme, but publicity is a feature which cannot easily be overdone so far as all the important details of a company's business are concerned. The distinguishing characteristic of American insurance legislation, however, is extreme restriction and regulation. The Armstrong law is perhaps the most objectionable illustration of this. That law restricts investments, limits expenses, limits contingency funds, defines the proportion of profits to be divided, prescribes the times and methods for dividing the same, and even lays down the plans of assurance and forms of policy to be used. Regulation is carried by it to an extent unknown in any other part of the English-speaking world. I need not weary you from the United States, however, with the details of the Armstrong law, as you are only too familiar with them.

We have before us then these two extremes—the British and the American. Should one or other of these be accepted by us as our ideal, or is it possible to improve upon both? This question can hardly be answered satisfactorily in the abstract. It must be considered in the light of the conditions and requirements of each country. If I resided in Great Britain I would probably advocate the British system, but I am by no means sure that it would work well, without modification, in a rapidly growing country like Canada, where new companies spring up each year. As a Canadian, I think

it possible to frame an act that will, for Canada and Canadian Companies at least, be superior to that of either our motherland or of our neighbor to the south.

Apart from the requirement of publicity, the most important points which have been dealt with by legislation are the following:—

(1) The Valuation of Policy Liabilities.
(2) Deferred Profit Assurances.
(3) Contingency Funds and Undistributed Surplus.
(4) Investment Powers.
(5) Expenses.
(6) Standard Forms of Policy.

Let us briefly consider these points.

THE VALUATION OF POLICY LIABILITIES.

In Great Britain there is no legal basis for policy valuations. If the solvency of any company is in doubt, the question is decided by calling in expert evidence as to what should be the valuation basis for the policies of that particular office. In most cases expert opinion would favor a valuation by a somewhat heavy table of mortality with four per cent. interest, credit being allowed for the gross premiums payable on the policies, less a deduction for collection expenses of about 12½ per cent. The boundary of actual insolvency for most life companies falls somewhere about this line. A valuation on this basis would not require as large reserves as would be called for by any standard in use on this side of the Atlantic, especially in the case of young companies. It must, however, be remembered that this valuation would merely indicate the minimum amount which a company could have on hand and yet be barely solvent, and that a company in such a condition would admittedly be in a deplorable state, and although probably able to meet all its claims as they would fall in, unable ever to pay profits. A manager who maintained no larger reserves than this minimum would act madly. British actuaries strongly favor heavy reserves, but not as a test of solvency. They oppose the enactment of any specific basis of solvency, and claim that it is not possible to have such a fixed basis without working evil in one direction or another. If the basis were laid down near where the line of solvency actually falls, or at any other comparatively low level, it would encourage companies to be satisfied with setting aside merely the reserves thus legally called for, and would in that way prove an evil. If on the other hand it were set at a rather high level, as in most states of the Union, it would probably force many really solvent companies into bankruptcy. That this is not a mere possibility has been proved by over one hundred and fifty small American companies which have been annihilated by the high valuation laws of the various states. Many of these would be alive and flourishing to-day but for this unwise legislation. Officials of even such companies as the Mutual of New York and the New York Life have testified that had those companies in their infancy been subject to laws such as were afterwards passed, they would not have survived. The case against the adoption of any one fixed standard of valuation is therefore a very strong

one. But does it follow from this that we in Canada should have no valuation standard at all? I am afraid that this would open the door to other evils possibly more serious. In any case, the idea of a legal basis of valuation is too deeply rooted on this continent to be easily eradicated. Without going into details, I believe that by the adoption of a sliding scale it is possible to avoid the evils inherent in a fixed standard and yet retain its advantages. After deciding on some moderate standard, which I may for the moment term the normal or average, I would permit any young company, or in fact any company, to make a deduction from the reserves thus found of a portion of the cost of securing new business, under no penalty or disadvantage other than a full statement in its returns of the actual facts. On the other hand, I would encourage a rivalry in regards to reserves, such as exists in Great Britain, by permitting every company to set aside heavier reserves than the bare requirements of the law, and giving it full credit therefor in its annual returns and in all tables of comparison published in the government blue books. It is just as desirable that a life company should have strong reserves as it is that a bank should have a substantial rest. No one, however, would require that a bank should be adjudged insolvent unless it had a minimum rest, and it is almost equally unreasonable to take this position in regard to an insurance company. A severe standard has dangers, and so also has a mild one. The united Canadian managers have proposed a definite basis for a sliding scale, which would, in their opinion, avoid the dangers inherent in either a severe or a mild standard, and would, for Canada at least, have advantages over either the British or the American method. It would, moreover, involve a minimum of interference with our existing law. It is an encouraging sign that the objections to a single fixed standard have been recognized even by such persons as the framers of the Armstrong law.

The Canadian managers believe that it is desirable to go even one step further in this direction and to deal with companies which while not insolvent have permitted their capital stocks to become largely impaired, even after making the deduction from their liabilities already recommended. We do not think that such companies should be refused licenses altogether or forced into liquidation, but as their prospects of paying reasonable profits to their policyholders cannot be good they should not be permitted to practically prey upon the public by issuing policies on the participating plan, and they should, we believe, receive licenses limiting them to non-participating assurances. We would even provide that should a company get into still deeper water, it should be within the power of the insurance department to grant a license prohibiting the issue of new policies but permitting the collection of premiums on existing policies only, as an alternative to the terrible calamity of a receivership. The aim should be, not to drive a company into insolvency, but to bring increasing pressure to bear upon it to either strengthen its reserves or reassure in a stronger office.

We believe that a sliding scale for policy valuations, combined with a system of partial licenses and proper facilities for re-assurance would go far to remove the chance of the failure of any of our life companies, and would stimulate all of them to strengthen their positions. At present we are able to say that no Canadian company, licensed by the Dominion Insurance Department, has failed. Canada, however, at present has many young and

but partially established companies. It also has the unhappy distinction, as a result of the unwise law of 1899, of having a higher standard of solvency than any other country in the world. Unless, therefore, changes in the law be speedily made along the lines indicated, it is but too probable that we will not be able to maintain our boast very long.

DEFERRED PROFIT ASSURANCES.

The prohibition of deferred profit policies has been a feature in much of the recent United States legislation. The deferred profit plan has had many critics. Nevertheless, I do not hesitate to announce myself as one of its pronounced advocates, and I will give reasons for the faith that is in me. This plan has unquestionably been a powerful instrument in popularizing life assurance throughout the world. There are tens of thousands—possibly hundreds of thousands—who would never have been assured but for its attractions. The combination of investment and protection at a low premium which the deferred profit plan has rendered possible, has induced multitudes of young unmarried men and others to take out policies who would never have been reached by the argument of protection alone. There are those who argue that assurance should be sold on its merits as protection, and that the introduction of the investment element in any form is objectionable. I do not share that view. It is just as necessary and proper for a person to provide for his own old age, as for the wants of his family in the case of death. Moreover, every feature which makes the life contract more attractive and thus induces more persons to assure, is desirable. Those who advocate that life policies should be reduced to plain contracts of indemnity, remind me of an experience I had a few years ago. My daughter and I happened to be in one of our back country villages, and a man in the neighborhood told us of a beautiful little lake in the mountains said to teem with trout. He agreed to provide transportation, rods and bait, assuring us that we could leave all arrangements to him. We drove about twelve miles that afternoon, slept in a habitant's house under conditions which I will not describe, arose at three o'clock in the morning, and walked four miles (which seemed eight) through the forest to the lake in question. There we found a raft, rods and lines awaiting us. I asked for bait, and he produced pork. I looked aghast, but there was no help for it. We pushed out on the raft and fished with pork. We caught a few trout, but had the disgust of seeing others rising around us on every hand. Our guide told us that pork was good enough for them, but the fish evidently thought otherwise. So our friends say that an unattractive policy is good enough for the public, but I am afraid a considerable section of the public will think otherwise. When I fish for fish I want the best bait I can get, and when I fish for policies I also want the best bait I can get. If some of you gentlemen do not entirely agree with these views, I ask your forbearance. In my personal opinion the deferred profit policy is the best in the world, not merely for the company, but for the policyholders. That the public also think so is shown by the fact that though for many years we have made no distinction in the rate of commission, two-thirds of all the business done by our company has been on the deferred profit plan. Attractiveness and popularity are no small arguments in favor of any plan of assurance.

But this attractiveness does more than merely increase the volume of business. The investment feature appeals to persons who do not feel the need of protection, and who have every confidence in their own prospects of longevity. These are the very best lives any company can get, and the mortality among them is surprisingly favorable. The rate of mortality is by no means similar under all plans, and is in fact favorable or unfavorable in direct proportion to the presence or absence of the investment feature. The experience of the Northwestern Mutual may be taken as an illustration:—

Term plan, actual deaths, 123.1 p.c. of expected, by Actuaries' table.

Life, without profits, actual deaths, 117.7 p.c. of expected.

Life, with profits, actual deaths, 83.7 p.c. of expected.

Limited Life, with profits, actual deaths, 70.2 p.c. of expected.

Endowment, with profits, actual deaths, 63.4 p.c. of expected.

This company also analyzed its deferred profit business according to the duration of the profit term, with the following results:—

Deferred profit period, 10 years, 70.7 p.c. of expected.

Deferred profit period, 15 years, 62.2 p.c. of expected.

Deferred profit period, 20 years, 59.6 p.c. of expected.

A favorable mortality of course enables a company to do better for its policyholders, and the really wonderful results in this direction obtained on the deferred profit plan constitute a second and very important count in its favor.

But attractiveness and low mortality are by no means the only good points of the plan. I might enlarge on its power to reduce lapses by encouraging policyholders to persevere with their payments; its special equity when applied to under-average lives; and, perhaps more important than anything else, the fact that it is possible under this plan, and only under this plan, to make every policy bear its own expense without being a burden on others. Under the annual distribution system it is hardly possible to so arrange that the expense of securing new policies shall not have to be deducted in part at least from the profits of the old members, and by making annual distribution compulsory, the Armstrong law has simply clinched this injustice on the business. Under the deferred profit plan, when properly operated, it becomes a matter of indifference to the existing policyholders whether the new business be great or small. They get the full profits earned by them in any case. This feature is of special importance in Canada, for our population is rapidly increasing, especially in the Northwest, and our life companies should naturally expand at a more rapid rate than would be customary in older countries. Rapid expansion is impossible on the annual dividend system except with injustice to the existing policyholders, while the deferred profit system permits such expansion with perfect equity.

But notwithstanding these advantages, I am not blind to the other side. The deferred profit plan has in the past been subject to two evils. One has been the holding out of estimates which have not been fulfilled. The other has been the absence of any form of accounting. If companies

are permitted to retain profits for twenty years without any accounting, abuses may arise, and surplus really belonging to the older policyholders may be diverted to make good impairment of capital, or for other purposes. Profits may even be paid on a liberal scale to maturing policies, without proper provision being necessarily made for other members whose profits are not yet due. I do not say that this has ever been done, but the door is open. These two evils or dangers should certainly be removed. Our Canadian commissioners recommend that estimates be prohibited entirely, and I am rather inclined to accept their decision on this point without argument. Personally, I do not think that estimates can ever be abolished, for nine out of ten applicants will certainly ask the agent what their profits are likely to be, and this will be the case no matter how frequently or infrequently the profits are divided. The question is a natural and proper one, and the agent must answer it. If estimates cannot be given by the company they will be given by the agent unofficially, and the last state may be worse than the first. The remedy I, myself, would prefer, would be to require every company which issues estimates on deferred profit policies to furnish statements showing how such estimates are prepared and the amount which should be on hand to carry out the same for every form of policy and for every age at entry and duration, just as is at present done for the valuation of policies. Specimen figures for each decennial age at entry and on the three leading plans could be published with its returns. The total amount of surplus thus required to carry out the estimates should then be stated, and by its side the amount actually on hand. By comparing these figures the public could at once tell to what extent the estimates were justified by the company's position, and excessive estimates would soon be a thing of the past. The commissioners, however, have ruled otherwise, and it is perhaps not wise to quarrel with their views on every point. The cure proposed by them for the lack of accounting is, however, similarly simple and drastic. They merely advise the abolition of this entire plan of assurance. If a patient has a slight ulcer on a finger, the surgeon does not advise that the entire arm be amputated, or that the man himself be quietly put out of the way. The evils complained of may be remedied with comparative ease. The commissioners themselves have proposed a cure for the one trouble which the companies are prepared to accept. For the second, the united managers realize that effective accounting is absolutely essential, and made definite recommendations to the commission as to the best form to adopt. If the plan suggested by these gentlemen be not sufficiently searching, let it be improved upon.

That deferred profit business can be conducted without excessive estimates and with a strict system of accounting, was shown in evidence secured by the Royal Commission itself. For example, in the Canadian company which had had the largest number of matured deferred profit assurances, the results paid had actually exceeded the estimates on which the business had been secured in thirty-four per cent. of all the cases, and the total sum paid on all its matured deferred profit policies had been about ninety-seven per cent. of the total amount originally estimated. Furthermore, although the premiums now being charged are higher than those of former years, the estimates now in use are lower. It was shown, moreover,

that in the same company a complete system of accounting is in use, and that it had on hand $108 for every $100 required to carry out its present estimates for every policy in force on its books. I mention this case merely to prove that the abuses in question are not necessarily inherent in the deferred profit plan. Why should such an office be prohibited from continuing to transact this form of business, merely because some others may perhaps have made mistakes? If policyholders get all they have been led to expect and are perfectly satisfied, who else need object? Evil practices should be guarded against, but entire prohibition would itself constitute an evil greater than those complained of.

Up to the present time, comparatively little business has been written on the annual distribution plan by Canadian companies. Annual distribution is essentially an American idea. Apart from the deferred profit plan, the usual system in Canada is that of quinquennial distribution, as in Great Britain. My own company, for example, has in force in Canada less than one hundred annual distribution policies, out of a total of about 45,000 assurances on Canadian lives. Very few British companies divide their profits more than once in five years. Such great British offices as the Scottish Provident Institution were even founded on the theory that profits should be paid only to those who may live out their expectation of life, and the deferred profit plan has thus been made the very corner-stone of their business. There are at least twenty-seven British offices which transact deferred profit business in one form or another, and on the other hand, probably not over one in twenty of the British companies issues policies on any annual dividend plan. The recommendation of our Canadian commissioners that annual distribution be made compulsory, shows how completely they had come under the influence of the American agitators, and particularly of the Armstrong committee.

THE LIMITATION OF UNDISTRIBUTED SURPLUS.

Closely associated with the question of deferred profits is that of the limitation of undistributed surplus. The Armstrong law places a maximum upon the surplus which any company may retain for contingency purposes. The scale runs from $10,000 for a small company, to five per cent. of the policy liabilities for a large one. Any further sum must be distributed to the policyholders. It is as if the law were to say to our banks that they must not accumulate rests or reserve funds beyond a certain proportion, and must divide everything else as they go along in dividends to their stockholders.

Such a regulation may cause objectionable fluctuations in dividends, but that is a minor matter compared with its extreme danger. The market values of railroad bonds of the highest grade have declined on the average not merely five, but more than six p.c. in the last twelve months alone. As a company can only take credit for the market value of its securities, it follows that if its funds were all invested in bonds, no matter how secure, the compulsory limitation of its undivided surplus to five per cent, might result in its entire margin being wiped out in any year of financial depression. A more unwise provision can hardly be imagined. Safety should be

the paramount consideration, but this law sacrifices safety to possible profit. Any attempt by a conservative far-seeing manager to provide against possible investment fluctuations beyond five per cent. has been made a misdemeanor. A large rest is a source of strength and pride in a bank, but has become a crime in a life company. The New York restrictions on this point are sufficiently foolish and dangerous, but our Canadian commissioners have distinguished themselves by going further. The maximum contingency fund permitted to large companies by the New York law is five per cent.; our commissioners propose to reduce this to four per cent. The New York law further provides that if a company already has a larger contingency fund than that permitted by the new scale, that additional amount may still be retained; this, our commissioners would refuse. Then, too, the New York law permits companies to retain their existing surplus on deferred profit policies as an additional undistributed margin; our commissioners would require all existing deferred profit surplus to be allotted and converted into a legal liability like the reserve. If the commission desired to wreck some even of our best companies, and to keep all of them at all times in a very dangerous condition, they could have devised no better means. Such recommendations bear the imprint of having been made by persons entirely unfamiliar with the subject, and I cannot believe that our Government will endorse them.

INVESTMENT POWERS.

The question of investments is largely outside the scope of the field man, and yet any measure which would lessen profits and make assurance more expensive to the policyholder, affects the field man also. You, of course, know that not all the interest which a company receives is profit, but only the excess beyond the 3½ per cent. or 4 per cent., as the case may be, which is required to make good the reserves. This excess constitutes one of the most important sources of profit. It is, therefore, essential to every policyholder that his company should invest his funds both safely and profitably. It is comparatively easy to obtain securities upon which it is certain that the interest will always be promptly paid, but that is not enough. Unless the interest obtained be more than 3½ per cent., there will be no profit, and unless all the market value of the securities continues to be at least equal to cost, there will be depreciation to provide for, and the excess of interest may be offset by the depreciation of principal. If a company invests in 5 per cent. bonds at par, it has a yearly surplus of 1½ per cent. over the legal requirements of 3½ per cent. If, however, the market value of these bonds should decline during the year to 98½, the nominal profit from interest would merely offset the depreciation of 1½ per cent. in market value, and the company would be no better off than if it had left the money in the bank at 3½ per cent. If the bonds should decline in value 6 per cent., as most listed bonds did last year, not only would the entire profit from interest be swallowed up in that decline but a loss of 4½ per cent. would still remain which would have to be made good from other sources. This is not mere theory, for leading British companies, such as the Life Association of Scotland, and the Standard Life, have already had to pass their dividends,

entirely or largely on this account. One New York company suffered a depreciation of $7,200,000 in its securities last year, and another, which has no stocks, $10,000,000, and both will probably suffer much more this year. This does not mean that their investments were unsafe, but simply that they have declined in value. British Consols, for example, sold a few years ago at 114, and are now worth but 84. Similar declines have been going on and are still going on in the value of almost all leading bonds, and where the end will be no one can foretell.

These bonds have declined in value because interest has risen. For a generation the average rate fell more or less steadily year after year, but about eight or ten years ago, the turn came, and every twelve-month since has noted a further rise in the average rate yielded by permanent investments. That rate is to-day higher than at any previous time in the last thirty years, and it will probably go higher yet. If a bond were purchased five years ago to yield 4 per cent., and to-day is worth but a five per cent. rate, its value will have shrunk perhaps 12 per cent., and if next year it has to be appraised on a 5½ per cent basis, its value will have shrunk perhaps a further 6 per cent., making 18 per cent in all. So long as interest continues to rise, so long will the value of bonds continue to fall.

We naturally ask, however, why has interest been rising in this way? It is easy to say that we are in a period of great commercial activity, but is that a sufficient answer? What has caused this prolonged and almost unexampled activity? Is it merely an ordinary swing of the pendulum, or is there some special reason for it? This enquiry may appear to lead us away from our subject, and yet it is closely connected with it. For any great financial movement, there are usually several causes, and this is no exception. Many authorities consider that the most important of these causes is the enormous increase in the world's production of gold, which has so marked recent years. Gold is as much a commercial commodity as copper and, like it, is subject to the law of supply and demand. Any marked increase in the supply causes a decrease in the value. Gold, however, differs from all other commodities, in that it itself is the standard by which other values are measured. If gold were, for example, to decline in value fifty per cent., so that a dollar piece which formerly had a purchasing power of, say, one hundred cents, were to decline to a purchasing power of, so to speak, only fifty cents, we would not notice the decline, for the dollar would still be called a dollar and not fifty cents. What we would notice would be a doubling up of values of all kinds of property. A house which was worth $10,000 in dollars with a purchasing power of one hundred cents, would become worth $20,000 in dollars with a purchasing power of only fifty cents, even if there were no other factor working towards an increase in value. If the owner of such a property had a mortgage on it of $5,000 he could repay that in dollars of the depreciated value, and have a margin remaining of $15,000, instead of but $5,000. A decline in the purchasing power of the dollar involves, as a corollary, a decline in the intrinsic value of debts and of fixed securities such as bonds and preferred stocks, and an increase in the value of all assets held in ownership, such as real estate and ordinary stocks. It impoverishes the creditor and enriches the debtor. Do not these considerations furnish the key to present business conditions? I

do not say that the dollar has declined in value fifty per cent., but that the increase in the supply of gold has been enormous, is well known. Then, too, we have seen a steady increase in prices, in wages, and in the nominal value of property. What has been the result? Persons who bought property of almost any description made money. Manufactures, railroads and enterprises of all kinds received a mighty stimulus. Commercial activity became the rule, and the activity in each branch of trade increased the activity in every other branch. The demand for capital became tremendous, and interest rose step by step, until a crisis has at last arrived. There is not enough capital to supply the needs of the world, and retrenchment has become necessary. Stocks which has been rising for years because of the increase in their intrinsic value, have lately been tumbling because of the absence of capital with which to purchase them. Whether we shall have a financial crash, or merely a general slow down, who can tell? Apart from the lack of capital, business conditions are on the whole sound, and that will probably operate to prevent a gigantic crash, but a marked curtailment of business must and will come. Moreover, the heavy production of gold still continues. What will be the effect of the continuance of that stimulus? These are points on which I will not attempt to prophesy. My aim is merely to draw attention to influences which affect the security markets, and which must be carefully considered by those who invest the funds of our life companies. The Armstrong law prohibits stocks of every description, limiting the companies to bonds and mortgages. This restriction is peculiarly objectionable, in that it confines the companies to the class of security the intrinsic value of which is steadily declining and shuts out the class the intrinsic value of which is as steadily increasing. The safe investment of the vast funds of our life companies calls for great experience and profound consideration. What is a wise investment at one time may be very unwise under different circumstances. Moreover, a class of security that may be suitable for one company may be very unsuitable for another. For example, a company located in the west may, because of its local knowledge, invest safely in mortgages on farms in our new territories, while another in the east may only do so with danger. Farm mortgages may be the natural and proper investment for the one company and bonds and stocks the equally natural and proper investment for the other. The course of wisdom is to permit a wide range from which the managers can choose the best, considering the circumstances of time and place. Undue restrictions are likely to result disastrously, not merely in the way of lessening the profits of the policyholders, but even of imperilling their safety.

While the decision of the Armstrong committee to exclude stocks was unwise, their views in regard to bonds are worth noting. They say: "It is difficult to draw any satisfactory line with reference to investments in negotiable bonds. It would not be advisable to restrict the investments of life insurance companies in the same manner as those of savings banks. The securities available for investment under such limitations would not be large enough in amount to furnish a sufficient field for the profitable investment of the large accumulations of insurance corporations. It has been feared that such a restriction would prove to be too severe, and might operate so far to increase the demand for the favored securities as to preclude a satisfactory rate of income. After much reflection on this subject the committee is of

opinion that no satisfactory line can be drawn with reference to investments in bonds, other than collateral trust bonds, without hampering the companies in the enjoyment of that reasonable freedom of investment necessary to ensure the return upon which the calculations of their risks are based."

If the American companies would be prevented from obtaining a proper return on their investments under such circumstances, what would be the position of our Canadian companies in the very narrow Canadian bond market? This statement of the unwisdom of restricting bond investments, coming from a committee so bitterly prejudiced against the companies, is entitled to double weight.

LIMITATION OF EXPENSE.

If it were possible to devise a measure which would diminish the cost of life assurance without seriously lessening its volume, that measure would indeed be welcome. When the effect, however, would be to greatly diminish the new assurance written by the companies, the proposed remedy may be an evil instead of a benefit. A trifling reduction in the cost of assurance is dearly purchased if the price be the leaving of a great number of other widows and orphans without protection. The life managers are keenly alive to the necessity of keeping expenses within narrow limits, but it is difficult not to smile at the arguments of those who protest against the cost of securing business, because it reduces the profits to policyholders, and who in the next breath advocate such a restriction of investments as would cut off much of the profit hitherto made by the companies. Do these critics realize that if the restrictions proposed by them on investment powers should result in a reduction of even one per cent. in the interest earnings (say four instead of five per cent.) the present value of that reduction would be equivalent to from one hundred to one hundred and fifty per cent. of the entire first year's premiums? What is the sum they hope to save on first year's expenses in comparison with this loss? For every dollar these gentlemen would save for the policyholders with the one hand they would take from them from three to five dollars with the other! There are several other restrictions proposed by these innocent critics, each of which would similarly lessen the profits to policyholders.

A reduction in the expense of securing new business is a consummation devoutly to be wished. It is possible, however, to over-estimate the value even of gold, and a few comparisons may help us to see facts in their true light. Let us take the case of a policy with an annual premium of say $25. A reduction of 10 per cent. in the initial expense would amount to $2.50. Improved at five per cent. interest this would at the end of twenty years amount to $6.62. If the saving in expense be even 20 per cent. of the first premium, that would amount to but $13.24 at the end of the term. On the other hand a difference of one per cent. in the rate of interest realized on the investments would mean a difference at the end of twenty years of about $45.00. If we turn to the mortality factor we find that any careful company may save at least twenty per cent. on the tabular allowance, and that this saving at the end of twenty years would then amount to about $60.00. On policies on the deferred profit plan, the saving in mortality will be quite ten per cent. greater, and would amount to say $30.00 more, or

$90.00 in all. The approximate comparative values of these items at the end of a twenty year term is, therefore, as follows:—

A reduction of 10 per cent. in expense of securing business	$ 6.62
A reduction of 20 per cent. in same	13.24
A difference of 1 per cent. in the interest earned by the company, about	45.00
The usual saving in mortality due to selection, about	60.00
Additional saving in mortality if business be on deferred profit plan	30.00
Total saving in mortality	90.00

It will be seen that a reduction in initial expense, highly desirable though that be, is of minor importance to policyholders compared with other sources of profit. The saving in mortality which a company experiences because of the superior quality of lives assured under deferred profit policies, is alone sufficient to offset twice over the additional initial expense complained of. A saving in one department is of course no justification for extravagance in another, but their relative importance should be understood, and no one factor should be enlarged and distorted through a magnifying glass, while other factors are belittled. Do not suppose from this that I underestimate the value of strict economy. That point is of prime importance, but nothing is really gained by shutting our eyes to other facts.

Attempts to legally regulate the operating details of any business are rarely successful and rarely reduce the cost. What may be saved in one direction is usually more than lost in another, and life assurance is no exception to this rule. If every company is required to publish such details as will make clear to the public just what profits they pay on every form of policy and furthermore exactly what provision they have made for profits on policies not yet matured, a rivalry will result as to which office can do the best for its policyholders, and this competition will have more effect in increasing profits than any restrictive measure.

But strange as it may appear, the very limitation of expense imposed by the Armstrong law would, if adopted in Canada, result in an immediate increase in the premiums charged by Canadian companies. This is one of the unexpected results which are apt to result from radical legislation of any kind. If the amount which a company may expend be based in whole or in part on the loadings, or margins, contained in its premiums, so that a company which charges high premiums may expend more than one which charges low premiums, the result is almost certain to be an increase in the premiums charged. To penalize companies which charge low premiums and reward those which charge more can have but one end. The premiums charged by Canadian companies are at present lower than those of the leading American offices, but it is practically certain that if the limitation of expense proposed by our commissioners were passed in Canada, one of the first results would be that all Canadian premiums would be raised to at least the American level, for the Canadian companies would have to do

this or be handicapped. The whole basis of competition would be changed from which company could furnish the cheapest assurance to which could charge the highest premiums and thus have most to spend. Another result would be that the movement in favor of high surrender values would be checked, for if any company were to give a penny more than the 3½ per cent. reserve, its loadings would be correspondingly reduced and it would be penalized by being required to pay smaller commissions. There are still other unexpected results on which I need not enlarge, as for example, special encouragement given to the undesirable term plan, the discouragement of companies from strengthening their reserves beyond the 3½ per cent. basis, the encouragement of loans on mortgage at low interest in order to get life policies without commission, and so on. I am not sure, however, that I individually, as representing one of the older companies, need particularly object to the restrictions proposed by our commissioners. So far as we are concerned, the law might even prove a blessing, for it would probably weed out some of the younger companies and confine the field more to the older offices. For the interests of the business as a whole, however, I am opposed to it. But we are told in reply that a number of the New York companies have petitioned the Wisconsin Legislature to limit expense on the New York basis. This reminds one of the fable of the fox which lost its tail, and which thereafter advised other foxes to have their tails cut off likewise. My company, however, not having yet lost its tail, is not prepared to advocate the amputation to its colleagues.

STANDARD POLICIES.

This subject can be dismissed with but few words. The Armstrong law provides for a death-like uniformity in the policies of all companies. There can be no life, no progress, no improvement. A similar measure would be a calamity to us in Canada. In any case, the Privy Council has decided that legislation regarding conditions in insurance policies is a question that is outside the jurisdiction of the Dominion Parliament, and rests exclusively with the provinces. How our commissioners and their counsel came to overlook this fact and to recommend parliament to pass legislation which would clearly be ultra vires it is hard to understand.

And now at last you can breathe freely, for I have finished. I fear that I have wearied you with undue detail, and yet there are many other important points on which I have not even touched.

The next session of our parliament will be one of historic importance for at it will be settled the conditions under which Canadian life assurance will operate for possibly the next quarter of a century. The responsibility which this imposes on our legislators is a very serious one. But it is more than a responsibility; it is a great opportunity. The principles that should govern legislation on this subject have been given more earnest consideration in the past twelve months than ever before, and Canada now has the opportunity to enact an insurance law which will be distinctly Canadian,

and a model to other countries. This desirable end is now within our grasp, if our government and companies will but thrust aside the malign influence of the New York example, and co-operate heartily and sympathetically with a single eye to the good of Canada and her people—the strengthening of her companies, the benefitting of their policyholders and the extension of the blessings of life assurance among the, at present, unassured public.